

Message Text

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E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION COMMENTS ON CENTRAL BANK DEPUTY
GOVERNORS' MEETING

REF: (A) 75 EC BRUSSELS 11278, (B) 75 EC BRUSSELS 11091,
(C) 75 EC BRUSSELS 10957

1. MONTHLY INTERVENTION REPORT: EC COMMISSION OFFICIALS INFORMED THE MISSION OF THE RESULTS OF THE EC CENTRAL BANK DEPUTY GOVERNORS' COMMITTEE MEETING IN BASEL ON JANUARY 13. THE DEPUTIES PLAN TO MAKE SEVERAL RECOMMENDATIONS FOR THE EC CENTRAL BANK GOVERNORS' COMMITTEE TO CONSIDER ON FEBRUARY 9. THEY ARE PROPOSING THAT THE GOVERNORS SHOULD SUBMIT A MONTHLY REPORT TO THE EC FINANCE MINISTERS ON CENTRAL BANK INTERVENTION ACTIVITIES IN EXCHANGE MARKETS. THIS REPORT WOULD BE PART OF THE CENTRAL BANK'S EFFORTS TO KEEP THE FINANCE MINISTERS INFORMED. THEY HOPE IT WOULD ALSO DEFLECT THE MINISTERS' EFFORTS TO TAKE A MORE ACTIVE ROLE IN INTERVENTION ACTIVITIES.

2. CONSULTATIONS: THE DEPUTIES WOULD ALSO LIKE TO ENCOURAGE THE FINANCE MINISTERS NOT TO SET UP A FORMAL CONSULTATIVE STRUCTURE TO COORDINATE INTERVENTION POLICIES, AS WAS SUGGESTED AT THE RAMBOUILLET SUMMIT. INSTEAD, THEY ARE SUGGESTING THAT FINANCE MINISTERS ALREADY HAVE ADEQUATE CONTACTS IN WP-3,
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IMF ANNUAL MEETINGS AND OTHER INTERNATIONAL FORA. COMMISSION

OFFICIALS ARE SURPRISED THAT THE FINANCE MINISTERS HAVE NOT
PRESSED TO SET UP THE SECOND AND THIRD TIERS OF THE PROPOSED
CONSULTATIVE STRUCTURE. THEY SURMISE THAT THESE TWO TIERS
MAY NOT BE SET UP.

3. CREDIT LINES FOR SWITZERLAND: FRG FINANCE MINISTER APEL
HAD PROPOSED (SEE REF A) THAT THE EC CENTRAL BANK GOVERNORS
STUDY THE POSSIBILITY OF SWAP ARRANGEMENTS BETWEEN THE SNAKE
MEMBERS AND THE SWISS CENTRAL BANK. PLANS HAD BEEN MADE FOR
THE HEYVAERT WORKING GROUP TO PREPARE SUCH A STUDY FOR THE
NEXT GOVERNORS' MEETING. THE FRG REPRESENTATIVE AT THE
DEPUTIES' MEETING SAID THAT THE FRG WOULD PREFER TO PROCEED
ON A BILATERAL BASIS RATHER THAN THROUGH A SNAKE ARRANGEMENT.
SWISS MISSION OFFICIALS HERE TELL US THAT THE GOS WOULD
ALSO PREFER BILATERAL SWAPS WITH THE FRG, THE NETHERLANDS AND
PERHAPS OTHERS RATHER THAN SNAKE-ARRANGED CREDIT LINES.
THE DEPUTIES CONSEQUENTLY ARE RECOMMENDING SUSPENSION OF THE
PROPOSED STUDY AND THE HEYVAERT GROUP HAS CANCELLED ITS
SCHEDULED MEETINGS.

4. REVIEW OF THE DOLLAR RATE: THE DEPUTIES ARE ALSO PROPOSING
THAT EACH MONTH THE EC CENTRAL BANKS REVIEW DOLLAR EXCHANGE
RATE DEVELOPMENTS VIS-A-VIS EC CURRENCIES. SEVERAL REPRESENTATIVES,
ESPECIALLY THE FRG AND THE NETHERLANDS, REGARD THIS
AS ONLY AN ASSESSMENT OF CURRENT MARKET TRENDS. THE FRENCH,
PERHAPS WITH SOME SUPPORT FROM BELGIUM, WOULD LIKE THE PROPOSED
REVIEW TO BE A FIRST STEP TOWARDS SETTING A TARGET RATE
FOR THE DOLLAR.

5. FRENCH INTERVENTIONS: COMMISSION OFFICIALS SAY THAT THE
FRENCH ARE MONITORING THE IMPACT OF THE DOLLAR EXCHANGE RATE
ON THE COMPETITIVE POSITION OF EC EXPORTS. FRANCE, DURING
MUCH OF THE SECOND HALF OF 1975, WAS INTERVENING IN DOLLARS
TO REDUCE THE DEPRECIATION OF THE DOLLAR RATE. ON THE OTHER
HAND, WHEN THE DOLLAR WAS APPRECIATING, THE GOF WAS SLOW
TO INTERVENE TO SMOOTH OUT DAILY FLUCTUATIONS ON THE DOLLAR
RATE. COMMISSION OFFICIALS BELIEVE FRANCE WAS TRYING TO KEEP
THE DOLLAR RATE RELATIVELY HIGH AND FRANCE WAS, IN FACT,
ATTEMPTING TO ESTABLISH A DE FACTO TARGET RATE FOR THE DOLLAR.
OTHER SNAKE PARTICIPANTS DID NOT SUPPORT THESE EFFORTS BUT
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THEY DID NOT STOP THEM EITHER. COMMISSION OFFICIALS ADD THAT
DURING THE MONTH OF DECEMBER, FRANCE AND OTHER SNAKE MEMBERS
ONLY INTERVENED IN DOLLARS.

6. COMMENT: THE MISSION IS NOT IN A POSITION TO EVALUATE
THE ACCURACY OF THE ABOVE COMMENTS ON FRENCH INTERVENTION
ACTIVITIES. END COMMENT.GREENWALD

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